Authors and Freelance Journalists

A guide to tax 2017/18

HW **Fisher**
& Company
CHARTERED ACCOUNTANTS

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Introduction

This tax guide for authors and journalists has been prepared by HW Fisher & Company, Chartered Accountants. Please note that this information is provided for guidance only and does not purport to give professional advice.

Our Authors and Journalists Team, led by Barry Kernon and Andrew Subramaniam, specialises in tax advice for writers.

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Basic tax information – to put you in the picture

This booklet will concentrate on two types of income relevant to authors and freelance journalists. The first type is income from an employment or office such as an employee of a newspaper. This type of income is known as 'earnings from employment'.

The second type is income of self-employed people which is referred to as 'trading income'. It includes income from trades, professions and vocations.

The scope for tax planning for authors and journalists with earnings from employment is much narrower than for those with trading income, who are generally able to claim a wide range of expenses and pay any tax due once or twice a year through self-assessment, rather than having tax deducted at source by their employer. Naturally, HM Revenue & Customs (HMRC) is keen to categorise as many people as possible as employed rather than self-employed.

What happens about your tax and National Insurance if you are employed

If you are employed, your employer is responsible for deducting Income Tax and National Insurance from your salary via the Pay As You Earn ('PAYE') system and then pays it to HMRC on your behalf.

- The amount of Income Tax deducted from your salary is determined by using your PAYE coding notice, which adjusts the level of tax on any benefits you may receive, higher rate tax due on other income and any relief for deductions, such as making pension payments or Gift Aid donations (see page 13).
- Class 1 National Insurance will be deducted from your salary at a rate of 12% in between the lower limit of £8,164 and the upper limit of £45,000 (from 6 April 2017). An additional 2% is payable on all salary above £45,000.
- You may still be required to complete a tax return if you are a higher rate taxpayer, and any additional tax due will be payable on 31 January 2019, for the year ended 5 April 2018.
- You can only claim expenses against your income that are wholly, exclusively and necessarily incurred in the duties of employment.

What happens about your tax and National Insurance if you are self-employed

If you are self-employed, you are responsible for your own tax and National Insurance. Even if you are paying Class 1 contributions as an employee, you may have to pay Class 2 and Class 4 contributions on self-employed income, subject to profit levels. This means:

- Telling HMRC, if you haven't already done so, that you are in business.
- Reporting all your income each year so that HMRC can assess the tax due. They will send you a return for doing this.
- Paying the tax: for the first tax year in which you are in business you may not have to pay the tax on your profits until after the end of that year, but after that, you normally pay it in equal instalments on 31 January and 31 July of each year.
- Paying Class 2 National Insurance contributions through self-assessment on 31 January following the end of that year. The Class 2 rate is £2.85 per week. Small earnings exemption is automatically granted to those who have low earnings. (The threshold is £6,025 as of 6 April 2017).
- Class 2 is being abolished with effect from April 2018. People with earnings below £6,025 may wish at that stage to pay Class 3 contributions (currently £14.25 per week) to establish a state pension entitlement.
- The Class 4 rate is 9% on self-employed profits between £8,164 and £45,000 per annum with an additional 2% payable on all profits above £45,000. It is assessed as part of the tax calculation and paid in the same way at the same times. It does not increase or affect entitlements in any way.

Being self-employed also affects:

- Your entitlement to social security benefits such as unemployment benefit.
- Other rights and duties, for example under employment protection legislation.
- Your liabilities to the public for the work you do.

You can find more information about self-employment in the booklet SE1 "Are You Thinking of Working for Yourself", which you can download at https://www.gov.uk/government/publications/setting-up-in-business-se1. To register as self-employed and to pay National Insurance, please follow this link: https://www.gov.uk/log-in-file-self-assessment-tax-return

Self-Assessment

The self-assessment system consists, essentially, of two stages:

- the completion of a tax return detailing all taxable income for the tax year and claiming appropriate allowances and reliefs, and
- payment of the tax as calculated by 31 January.

It is possible to complete a paper tax return by 31 October, if you are unable to file online. Otherwise, your tax return should be submitted online and details can be found at:

https://www.gov.uk/self-assessment-tax-returns/sending-return

The income tax year runs from 6 April to 5 April the following year. So the tax year 2017/18 is from 6 April 2017 to 5 April 2018. A notification of your requirement to file an income tax return is usually sent out in April each year.

Employees

Employees are generally taxable on earnings from employment received during the 'current' tax year.

Details of such income are shown on form P60 (if you are employed at the end of the tax year) or form P45 if you leave employment during the year. You may be paid expenses or provided with taxable benefits by your employer and these may be shown on a form P11D.

Self-employed

Self-employed authors and journalists are taxed on earnings in the 'current tax year'. For example, a 30 June 2017 year end is assessable for the year ended 5 April 2018.

Time limits

There are strict time limits for the filing of tax returns, with fixed penalties automatically enforced for failure to adhere to the respective due dates. Self-assessment will financially punish taxpayers whose tax affairs fall into arrears.

Tax returns usually have to be filed online with HMRC by 31 January (31 October for returns filed by 'paper') following the end of the year of assessment. For example, for the tax year ended 5 April 2018, a paper return must reach HMRC by 31 October 2018, while the deadline for online filing is 31 January 2019.

The penalty regime is summarised below.

- Interest is automatically charged on all overdue tax (currently 2.75% per annum calculated daily).
- Automatic 5% surcharge on late payment of tax over 30 days after the normal payment date (usually 2 March following the tax year).
- Two further 5% surcharges on tax paid more than 6 and then 12 months after the normal payment date.
- Failure to deliver a tax return by the due date (usually 31 January) produces an automatic late filing penalty of £100, whether or not the tax is paid on time, and even if a tax liability does not arise.
- Automatic daily fines of £10, up to a maximum of £900, are also levied once a return is three months overdue.
- Two further penalties of the higher of £300 or 5% of the final liability are due if the tax return has still not been filed by 6 months and 12 months following the submission deadline.

Simple record keeping

A number of people have asked us about the degree of thoroughness in record keeping that is required by HMRC under the system of self-assessment.

Some expenses contain an element of private expenditure and need apportioning before a claim is made. It is a long established practice that HMRC will accept claims for business use of telephone, motor running expenses and a room used as an office.

Whatever proportion of a particular expense is claimed, it is best to keep all records, receipts or invoices for a minimum period of five years and ten months following each tax year.

This includes bills for telephone, receipts for motor repairs, servicing and insurance and household bills for council tax, insurance, maintenance and repairs, and other expenses relating to the property as a whole.

It is unrealistic to expect taxpayers to log every telephone call and keep an exact record of business mileage, but what valid evidence there is of the amount claimed could be very useful. Logging telephone calls for a sample period, the same for business mileage and evidence of journeys from a business diary, could be very helpful indeed if there was a dispute about the amount claimed.

It will simply not be good enough to claim an estimated percentage without some evidence. These claims will be an open invitation for an HMRC enquiry. The following points may be helpful.

1. Car and telephone expenses – Keep a log or diary note for a sample period of, say, three months, and base the annual claim on the percentage this produces. Alternatively, for car costs, simply keep a record of business miles and apply the HMRC 'approved rate'. Review this perhaps once in each tax year or, if not, as regularly as possible.

2. Use of home as office – Keep all receipts for home costs. Those working from home can make a claim for a proportion of home costs whether or not a room is set aside for business use. The claim will be for a proportion of home costs such as rent or mortgage interest, council tax, electricity, gas, other fuels, buildings insurance, contents insurance, service charges, ground rent, repairs and decorating, depending upon the type of property.

If a separate room is not furnished as an office, it may be necessary to restrict the claim by reference to the number of hours spent working at home.

It is advisable to ensure that any office or study is used primarily, but not exclusively, for business purposes, if the property is owned, as this will avoid any capital gains tax liability arising on the sale of the property.

3. Payments to spouses/partners for assistance – The fee or salary must actually be paid from the business, and evidence of this should be retained. Annotating bank statements would probably represent an acceptable record.

4. Travelling – It is not a statutory requirement that you have a receipt for every expense, although it helps. Keep a diary note of amounts spent on taxis and public transport. Taxi drivers will give receipts but these do get lost, overlooked or forgotten. Sometimes there just isn't time to remember or to wait while one is written out. A contemporaneous note is quite acceptable.

The self-assessment return specifically asks if any estimates have been used. The fear is that a positive answer will invite priority in HMRC's enquiry schedule. This may or may not be true

but it is clearly essential to be able to justify any estimates made.

Difficulties can also arise in the recording of freelance income. For example, many people are reimbursed for expenditure they have incurred.

Reimbursed expenses represent income for the purposes of income tax and also for VAT. A full record has to be kept of these reimbursements and it is also necessary to keep copies of expenses claims and, if possible, copies of supporting invoices. In fact, it is preferable to retain original invoices and to pass on photocopies, particularly for individuals who are registered for VAT, except in cases where the agreement with the client is different. Some companies require original invoices for their own VAT purposes.

Expenses reimbursements have to be shown in the accounts as income and also as expenses where this is appropriate. However, in some cases, the amount received is not equal to the amount that can be claimed, because of particular HMRC regulations. It is, therefore, all the more important that the records are as detailed as possible.

When HMRC enquire, they automatically ask to have all bank and building society lodgements identified. If any money received cannot positively be identified, HMRC will tax it. This means that private items can be taxed unless a record has been kept. It is a good idea to retain a paying in book, detailing every lodgement, whether this represents income or not.

All in all, it is not possible to over-emphasise the importance of record keeping.

Accounts preparation work for tax purposes

As indicated earlier, all self-employed individuals must complete the self-employment pages in the return. Under self-assessment, it is not necessary to send in copies of your accounts to HMRC. Instead, you have to disclose your income and expenses under pre-printed categories on the return (e.g. premises costs would include rent, business rates, lighting, heating, power and insurance for premises that were totally designated for 100% business use). There is also a column for entering disallowable expenses included in the grand total for an expense item (e.g. for premises costs, any non-business use of the premises would be disallowable).

Simple tax accounts

HMRC have simplified the accounting requirements for businesses, either full or part-time, where total business turnover before expenses is less than £85,000 per year (for 2016/17 the limit was £83,000). All you need to return in these circumstances is:

- Gross business turnover
- Total allowable deductions (business purchases and expenses)
- Capital allowances
- Net profit or loss.

It is essential to keep a detailed list of expenses and purchases for business purposes in case of a query from the Tax Inspector.

Professional expenses

The 'Taxes Act' states that as a self-employed individual you are entitled to claim for expenses incurred "…wholly and exclusively… for the purpose of trade….". HMRC will only allow expenses which come within this definition. Luckily this does cover most of the expenses you are likely to come across.

Let's look at some of the more usual types of allowable expenses, although it must be pointed out that this is not an exhaustive list.

- Use of home as office, office rental costs
- Agents' fees and commissions
- Secretarial assistance
- Professional subscriptions
- Taxis, travelling and accommodation, subsistence in some cases
- Car running expenses
- Telephone and broadband
- Printing, postage, stationery and photocopying
- Software, CD-ROMs, internet charges
- Photographic expenses, illustrations and press cuttings
- Theatre, cinema and music tickets etc
- Television licence, satellite/cable costs
- Reference books, scripts, compact discs, tapes, professional journals and newspapers, DVDs
- Courses and conferences

- Bank charges and interest, hire purchase or leasing costs
- Accountancy fees, legal costs, bookkeeping
- Research assistance and materials
- Repairs and maintenance of equipment, also insurances
- Capital items used for professional purposes, e.g. TV set, car, computer, mobile phones, office equipment and furniture. This type of expenditure qualifies for capital allowances
- Copies of own books for publicity

There may be items not included in this list but which are nevertheless allowable. It is best to maintain a record of all expenses and seek advice if in doubt about what HMRC will accept. Remember that if your gross earnings (including reimbursed or round sum expenses) reach £85,000 (from 1 April 2017) in any consecutive 12 months you must register for VAT.

Capital allowances

These are a system of spreading expenditure on "plant and machinery", which includes vehicles, reference library, office furniture, computers etc., over its useful economic life. These allowances can be a little confusing until you know your way around them, but they are important.

Capital allowances: Plant and machinery allowance regime
The main rules are as follows.

- The main rate of Writing Down Allowances (WDAs) is 18%.
- The rate of WDAs on long life assets is 8%.
- An Annual Investment Allowance (AIA) is available for the first £200,000 of expenditure on most plant and machinery each year, giving up to a 100% allowance.
- Where more than £200,000 is spent in a chargeable period, the excess will qualify for WDAs in the normal manner.
- Any expenditure that qualifies for 100% allowances under separate schemes will be unaffected by the AIA.
- Where unrelieved brought forward expenditure in the main pool is £1,000 or less, businesses can claim a WDA of any amount up to the balance of the pool.

This is an intricate area of tax and we advise that you seek advice where necessary.

Capital allowances: Motor cars

The allowances depend on the car, when you bought it, its CO_2 emissions rating and any personal use. Broadly, acquiring vehicles with low CO_2 emissions is beneficial.

Appealing against HMRC's figures

With a system of self-assessment, a general right to appeal against assessments is no longer necessary. Circumstances will arise, however, when appeals are required (e.g. when the self-assessment is amended by HMRC or a discovery assessment is issued). If you disagree with HMRC's figures you have 30 days in which to appeal against them. (A late appeal will usually be accepted if there are reasonable grounds such as sickness or absence on holiday.)

What happens when you send in your tax return?

When you submit your tax return HMRC will 'process' it. This means the figures shown on your tax return will be input into the self-assessment computer system. At this stage, there will be checks made for obvious errors (such as the figures not adding up) but the return will not be looked at closely. If you have submitted the return before 31 October you will be sent a calculation of the tax due. If you have calculated the tax due yourself you will either receive confirmation that the return has been "processed without need for correction" or you will be sent a calculation indicating where the figures differ from yours.

Enquiries into your tax return

HMRC usually has 12 months from submission of the form to open a formal enquiry into your tax return. This is sometimes referred to as a 'Section 9A' enquiry. The time limit can be longer than 12 months if the return is submitted late. Most enquiries are opened because the Inspector knows or suspects something is wrong with the return.

There are also a number of purely random enquiries each year. The Tax Inspector will never disclose whether the enquiry is random or whether they know or suspect something. If the Tax Inspector opens a 'Section 9A' enquiry they will usually write to you and your accountant, if you have one, setting out their concerns and asking a series of questions or requesting documentary evidence of entries on your return. Once the enquiry is complete the Inspector will tell you that they want some more tax, that nothing needs changing or, occasionally, that you have paid too much tax.

If more tax is due, interest will be charged and the Inspector may also impose penalties, which can amount to 100% of the extra tax, and 200% where offshore disclosures are involved.

If, when looking at your return for a particular year, the Tax Inspector finds a serious error in your figures and feels that this may have occurred in previous years, they are able to issue a 'discovery assessment' for earlier years even if the normal enquiry time limit has passed.

If you receive notice of a 'Section 9A' enquiry and you do not have an accountant you should seriously consider appointing one who is experienced in this area. The professional costs in dealing with an enquiry from HMRC can quickly mount up. Many accountants can arrange insurance to cover such costs.

Making Tax Digital

From April 2019 HMRC is proposing that self-employed individuals and landlords will need to file income and expenses information on a quarterly basis, using digital software. This, according to HMRC, will affect businesses with a turnover in excess of £10,000. At the time of going to press, these proposals have been delayed due to the general election but may be put back on the agenda depending on the outcome.

Averaging relief

Averaging relief is a means of smoothing out the peaks and troughs of income over successive years. There can be a beneficial effect on payments on account, and it can also be valuable if high profits one year are preceded or followed by much lower profits.

By averaging, profits that would be taxed at 40% may be taxed at 20%. However, it is important to consider National Insurance implications too.

VAT – A short guide

It is not compulsory to register for VAT until your turnover (i.e. total self-employed income from all sources) exceeds £85,000 a year (from 1 April 2017). You can, however, register voluntarily, no matter what your turnover is.

Beware of the implications of 'Scale Charges' for motoring costs if you reclaim VAT on petrol. Since the VAT authorities are not renowned for their leniency or sympathy and operate a harsh regime, it is probably wise to consult an accountant to examine and explain the benefits and pitfalls of VAT registration first, and also the accounting system to be employed.

Under what is known as the 'Flat Rate Scheme' the VAT liability can be determined as a percentage of turnover, for businesses or individuals with an annual taxable turnover of less than £150,000 excluding VAT. For most writers, this scheme is not generally beneficial.

From January 2015 VAT is chargeable on automatic digital sales (such as eBooks) made to EU residents. Details can be found at https://www.gov.uk/guidance/register-and-use-the-vat-mini-one-stop-shop

Domicile

From 6 April 2008 the benefits from being domiciled outside the UK, while resident here, have been reduced considerably for most people. Apart from recent arrivals, only people with very substantial overseas income or gains, or those with overseas income of less than £2,000 per annum now benefit. We can offer advice as necessary.

Foreign tax credits

If you work abroad, you may be taxed on that income in both the UK and the country where it is earned. Therefore you will effectively be taxed twice on the same income. However, when you prepare your UK tax return, you can usually claim relief for some or all of the foreign tax suffered, depending on the rate at which you were taxed.

The treatment of the foreign tax is usually subject to the 'Double Tax Treaty' the UK has in place with the country you were taxed in. Generally, the tax treaties are such that your combined tax bill should be no more than the amount you would have to pay in the country where the higher tax is charged. If there is no treaty in place, then unilateral relief is available where the rule is that you can claim relief on the lower of the foreign tax suffered or the UK tax due on that income. In order to claim the double tax credit, you must get a certificate of tax deducted.

Incorporation

This is an area which has undergone a huge change and so professional advice should be sought. Particular care is needed where copyrights are to be assigned or publishing agreements are to be novated.

Partnerships

Partnerships could also help to save tax, through making use of a partner's, spouse's or civil partner's personal allowance and basic rate band. However, HMRC may attack these partnership agreements if it feels that the profit share is not representative of the level of work done.Taking professional advice is advisable.

Royalty auditing

A royalty audit requires detailed analysis of the licensee's books and records utilising a range of specially designed auditing and IT techniques. The on-site visit can last anything from 1 day to 2 weeks depending on a range of factors, including the complexity of the licensee's systems, the number of product lines, value of sales, number of licence agreements and the length of the audit. A typical on-site audit visit would normally last for 2 or 3 days.

The main aims of a royalty audit can be summarised as follows.

- To ensure that the licensee has properly accounted for, reported and paid all monies owing under a licence agreement.
- To ensure that the licensee has complied with the terms of the licence agreement. Breaches identified during audits can include but are not limited to the following: Sales out of Territory, Sales of Unapproved Products, Sales of Unlicensed Products, Sales out of Term, Over-Charging on Sales to Licensor and Sales to Unapproved Channels.
- To provide the Licensor or with information regarding how the Licensor runs its business

Tax credits

If your income is low it may be possible to claim tax credits to supplement your income. These are outside the scope of this booklet. Further details can be found on HMRC's website at https://www.gov.uk/browse/benefits/tax-credits

Save tax by investing your money

Pensions

If you have earnings from self-employment (or employment if you do not contribute to a company scheme) you can use part of that income to make provision for your retirement.

Within certain limits you will get full tax relief on your payments, which compares very favourably with other financial products where you get no tax relief. However, you will have to wait until you are at least 55 to get at the money…that's the catch in it!

This is, however, an effective and tax efficient way of saving tax, particularly if you are paying tax at the higher rates.

Other tax efficient investments

There are other tax efficient investments such as Individual Savings Accounts (ISAs) and Insurance Bonds. If you want further information regarding these you should consult a Financial Adviser, such as CBF Wealth Management at our address.

Main personal allowances & tax rates for 2017/18

Personal allowances:

Basic £11,500
This may change for those with incomes over £100,000.

Tax rates on taxable income: (i.e. after allowances)

20% 0 – £33,500
40% £33,500 – £150,000
45% Over £150,000

National Insurance:

Class 1 (employees)

12% £8,164 - £45,000
2% Over £45,000

Class 2 (self-employed)
£2.85 per week, unless taxable profits are below £6,025

Class 4 (self-employed)
9% on taxable profits between £8,164 and £45,000
2% Over £45,000

Taking care of tax – Some useful tips

1. If you are just starting out, you must register with HMRC as self-employed at the very latest 6 months after the end of the tax year in which you started.
2. Be honest with HMRC. It pays in the long run. Don't think that you can fool them either; a high percentage of tax inspectors are top class university graduates.
3. When you write a letter to HMRC, keep a copy for future reference.
4. Get receipts for everything that you pay out.
5. If in doubt about any expenses or allowances – CLAIM THEM! Keep full details available for HMRC in case they ask.
6. Don't ignore communications from HMRC. They won't go away and can get quite persistent. It will only lead to estimates of your income being made, which always ends up with you paying excessive tax.
7. Don't write nasty letters to HMRC, even if they've made a mistake. It won't get you anywhere. A polite letter receives far more sympathetic consideration.
8. In spite of all you've heard about tax inspectors, most of them are reasonable. They are there to ensure that you pay the correct amount of tax – no more and no less. They don't get paid on a commission basis either!
9. It is important to put some money aside as you go along to cover your tax bills when they arrive.

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